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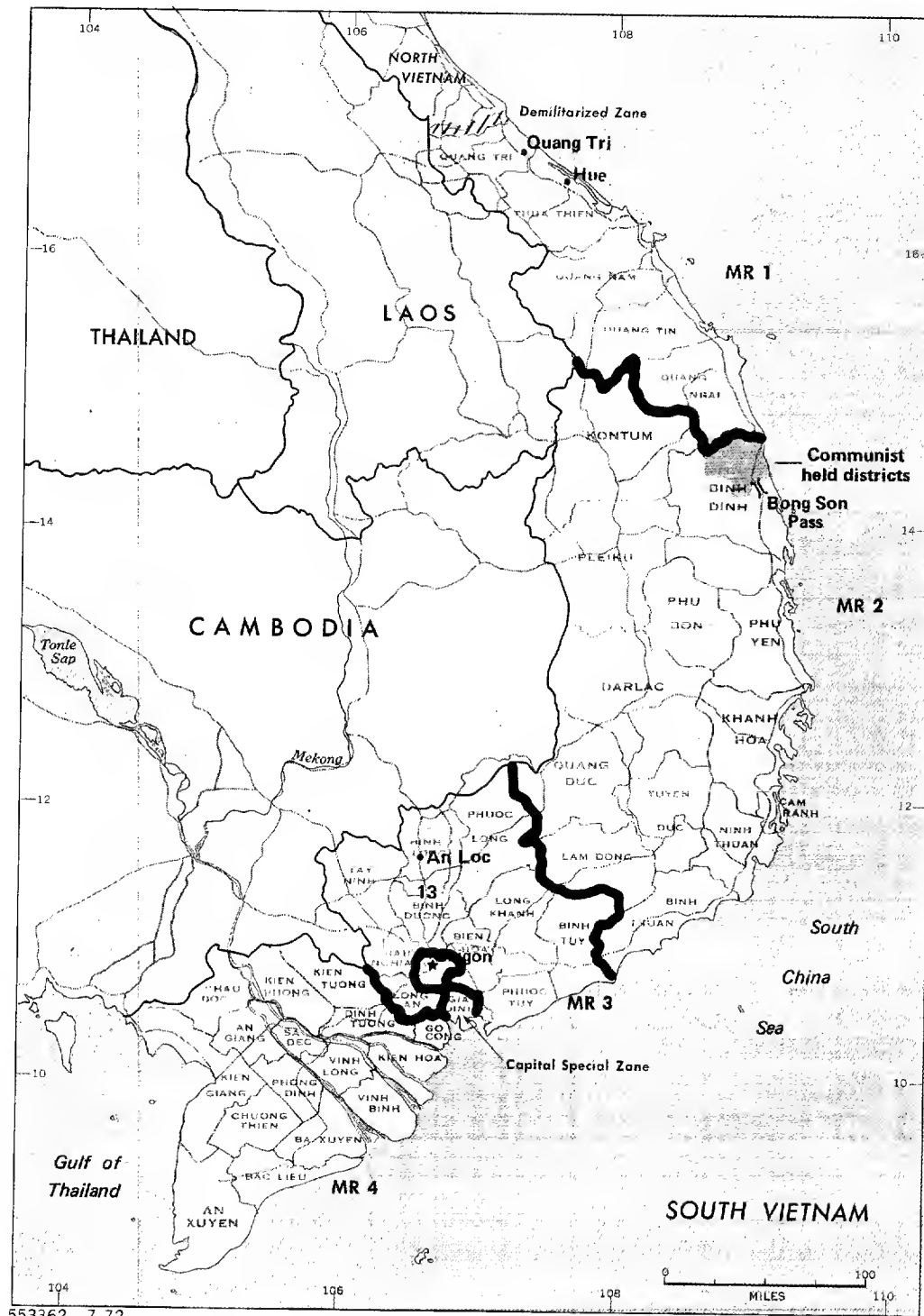
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VIETNAM: Ground fighting tapered off in Quang Tri Province yesterday, but Communist shellings increased.] 4

[The heavier shellings suggest that enemy artillery units in Quang Tri have regrouped and have also been resupplied. There are indications, however, that North Vietnamese infantry units in the area are preparing to offer more vigorous resistance soon against the South Vietnamese trying to recapture Quang Tri City.] 3

[In Binh Dinh Province, the South Vietnamese yesterday began a major push to recapture the three enemy-held northern districts. A preliminary move three days ago into the Bong Son Pass area met only light enemy resistance. Plans call for units of the 22nd Division, supported by rangers and territorial forces, to push north to the Quang Ngai Province border.] 4

[Farther south in Military Region 3 some progress has been made in clearing Route 13 south of An Loc. While the road is not yet open all the way from Saigon, a major bottleneck has been broken and South Vietnamese 21st Division units continue to push against the closed segments.] 2

[In the Mekong Delta, action remains centered in Dinh Tuong and Vinh Binh provinces where enemy forces have been attacking several district towns, field positions, and military bases. Two major attacks launched on 18 July in each of the two provinces are still in progress, with the outcome not yet decided.] 2

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Hanoi has again focused the attention of its people on the need for unstinting support of the war. A recent Council of Ministers mobilization order-- which is similar to decrees issued during the 1965-68] 5

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(bombing period--appears to be an attempt to lay the groundwork for the rapid call-up of labor to cope with current pressures and possible emergencies. Officials for several weeks have expressed considerable anxiety about the difficult and unexpected tasks brought about by heavy bomb damage to the transportation system, the condition of the dike system, possible recurrence of last year's disastrous floods, and the importance of increasing food production. The order should ensure that as many citizens as possible--if necessary, even those now outside the labor force--will be productively employed and prepared to react rapidly to orders for work on specific projects.

It is likely that repairing bomb damage or meeting a new flood crisis could require several hundred thousand workers. During the 1965-68 period, some 400,000 people throughout the country were engaged in repairing damaged bridges, railroads, and highways. While such an effort would cause temporary labor shortages in some areas, the over-all labor force--nearly ten million people--is undoubtedly adequate to absorb such a diversion.

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EGYPT-USSR: Moscow has confirmed the recall of Soviet military personnel from Egypt.

In language calculated to comply with President Sadat's decision to terminate the Soviet military advisory presence, TASS yesterday announced that Soviet forces in Egypt had "completed their functions" and would "shortly return" to the USSR. Moscow explained that these forces were intended to remain in Egypt for only a "limited period" and that, following an exchange of opinions, both sides had "deemed it expedient" to bring them home. Thus the Soviets have chosen conciliatory language in order to minimize the damage both to their prestige and their presence in Egypt.

Reaction in the Middle East to President Sadat's move has been guarded. While Libya and Sudan have issued terse statements saying they have received the news of the Egyptian leader's decision with great satisfaction, most Arab states have remained silent. The Arabic press has been mixed; the reaction of pro-Egyptian newspapers has been predictable. Both conservative and leftist papers condemned Sadat's move as an attempt to win US friendship while placing the Arabs in a dangerous position vis-a-vis the Israelis. Tel Aviv announced Prime Minister Golda Meir will make a statement Monday to the Knesset. Meanwhile her confidant, Information Minister Galili, said the departure of the Soviets would not of itself justify a change in Israeli policy toward Egypt.

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USSR: Occidental Petroleum Corporation's highly touted "agreement" with the Soviet Union may be less than meets the eye.

The agreement is similar to others signed by the Soviets with Western firms and governments. Typically, these pacts are generalized statements of intent, but trade depends upon the conclusion of future contracts. Also, Occidental's small size, lack of market outlets, and inexperience in arctic operations, make it not the best choice for assisting in gas and oil exploration and production. The company's successful oil exploration and exploitation activities in diverse areas, however, indicate it could adapt to Soviet conditions or acquire outside expertise.

Occidental officials have informed the US trade mission now en route to Moscow that a contract calling for 50-percent financing of a \$300-million chemical fertilizer plant in return for part of the plant's production may be concluded within two weeks. The Soviets may hope that dangling the prospect of a variety of such contracts before the US trade negotiators may persuade them to resolve quickly, and on terms favorable to the USSR, outstanding US-Soviet economic problems. These include lend-lease settlement, US credits, licensing technology as well as a trade agreement.

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PAKISTAN: Concern over the government's reforms, particularly nationalization of industry, is constraining investment and eroding businessmen's confidence in the economy.

US bankers in Karachi are painting a pessimistic picture of the investment climate well into 1973. They report that Pakistani businessmen are not seeking loans for new investment or expansion in manufacturing, and that a number of them are even trying to divest themselves of their major manufacturing holdings. This assessment is shared by US petroleum officials, who also are planning no new investments.

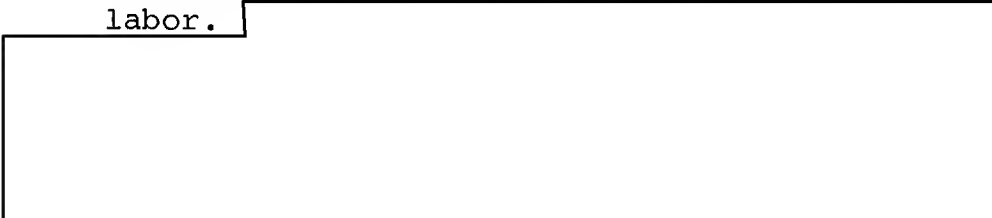
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This general pessimism will clearly continue to hold back economic performance. Despite relatively impressive showings in agriculture and exports, industrial output will not easily recover from the loss of markets in Bangladesh. Moreover, engineering and construction activities will remain slack because of weak investment demand. Investor confidence was shaken earlier this year by Bhutto's partial take-over of several industries, and the government has done little to allay businessmen's fears since then.

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Bhutto's economic policies have been significantly influenced by the need to avoid trouble with the left wing of his party. In June, for example, the government initially took repressive measures against strikers in Karachi, but after party leftists reacted strongly, Bhutto forced the industrialists to agree to a settlement favorable to labor.

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FINLAND: The minority Social Democratic government resigned yesterday rather than face the responsibility of signing a free trade agreement with the EC. Prime Minister Rafael Paasio declared that "only a majority government" should take action on this controversial issue.

Finland, along with five other West European countries, was scheduled to initial the agreement today. This was to be followed by formal signing on 22 July. Ratification this fall by the Finnish parliament was expected to be difficult but, barring Soviet opposition, chances of passage had appeared good. The government's decision to resign, which delays progress on the EC issue, undoubtedly pleases the Soviets, who remain troubled about any Finnish-EC arrangement.

President Kekkonen, who supports the EC arrangement, has asked the government to continue in a caretaker capacity until a new majority coalition can be formed. The President had hoped to put off forming a coalition until after municipal elections in October.

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YUGOSLAVIA: The party, on both the federal and local levels, has made only minor progress in its struggle against regional nationalism.

Seven months after the purge of Croatian nationalists, there is now growing concern about Serbia. A republic party plenum there in late June was devoted to the dangers of nationalism. In addition, Serb officials admitted at last week's plenum of the federal party in Belgrade that their republic is struggling against resurgent "great Serbian chauvinism." Even Serbian Assembly President Dragoslav Markovic is reported to be under fire for espousing a dominant national role for the Serbs.

All speakers at the federal party meeting condemned regional nationalism, but complained that measures to combat it have been inadequate. Party officials are predicting victory, but only after a tough grass-roots struggle.

The federal plenum is the latest example of the party's effort to regain the confidence it lost last year when it failed to handle the Croatian challenge and Tito had to intervene personally. In addition, the party has already started to lay the groundwork for a tough stand against nationalists at a federal party conference in November.

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CUBA: Havana has announced that the 1972 sugar harvest has ended, but no production figures were given out. President Dorticos has described the drought-damaged harvest as "bad," and although most estimates place it in the range of about 4 million tons it may in fact be as small as the 1963 crop of 3.8 million tons. Unlike that harvest, the worst under Castro, this one cannot be attributed entirely to the shifting of priorities from agriculture to industry. Castro is likely to discuss Cuba's continuing agricultural problems during his anniversary speech on 26 July and he may call for even greater sacrifices by the workers to overcome them.

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CANADA: The sharp rise in Canadian exports, which totaled about \$9.7 billion for the first half of this year, was almost entirely accounted for by a 17-percent increase in sales to the US. This increase comes from accelerated economic growth in the US. Exports to other markets held their own, in marked contrast to a substantial drop last year. Sustained sales to non-US markets partly reflect economic recovery in some other countries, but they also indicate that the impact of the eight-percent appreciation of the floating Canadian dollar in 1970 is about spent.

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